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ABSTRACT

Since 1986, the Hawaii Legislature has granted the University of Hawaii (UH) and the State Department of Education (DOE) greater administrative financial flexibility than is allowed other state agencies. In 1989, the state auditor was requested to evaluate the legislation's effects and educational assessment progress at the two educational agencies. This final report shows that neither the UH nor the DOE can demonstrate that increased administrative flexibility has resulted in improved educational services. Whereas the UH can demonstrate timely performance of fiscal operations affected by the administrative flexibility legislation, the DOE still lacks any performance data for evaluating its fiscal operations. Faced with difficulties in implementing its new automated financial management system, the DOE has not emphasized performance monitoring. Both educational agencies are continuing to pay late interest penalties only when vendors bill them for the penalty. Also, neither agency can routinely monitor the time taken to pay vendors. Regarding educational program assessment, the UH has pursued a diffused approach stressing operational unit needs over systemwide accountability needs. The DOE's educational assessment and accountability system is fragmented. Recommendations to improve both agencies' accountability efforts are provided. Letters of comment and an executive summary are appended. (MLH)

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ED 369 166

Final Report on Administrative Flexibility Granted to the University of Hawaii and the Department of Education

A Report to the Governor and the Legislature of the State of Hawaii

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THE AUDITOR
STATE OF HAWAII

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OVERVIEW

THE AUDITOR
STATE OF HAWAII

Final Report on Administrative Flexibility Granted to the University of Hawaii and the Department of Education

Summary

Act 321, SLH 1986, granted to the University of Hawaii (UH) and the Department of Education (DOE) for a period of three years a greater degree of administrative flexibility over various fiscal matters than is allowed other state agencies. Act 371, SLH 1989, extended, with some modification, this legislation for another five years. Act 371 also requested the Auditor to assess the impact of the legislation and to evaluate the progress of educational assessment at the two educational agencies. This final report follows a status report that was submitted to the Legislature in 1991.

Neither the UH nor the DOE can demonstrate that the increased administrative flexibility granted to them under this legislation has resulted in improvements in the educational services that the two agencies provide. This was not unexpected, however. We cautioned in 1987 that it is virtually impossible to make any direct correlations between changes in administrative operations and changes in the quality of educational services.

The UH is able to show, however, that it is performing in a timely manner the fiscal operations affected by the administrative flexibility legislation. In contrast, the DOE still lacks any performance data by which its fiscal operations can be evaluated. Faced with many difficulties in trying to implement its new automated financial management system, the DOE has not given a high priority to performance monitoring.

As we found in our previous reviews, the two educational agencies are continuing to follow a practice that is unfair to vendors and inconsistent with the practice followed for other state agencies. When the DOE and UH are late in paying vendors, they pay the interest penalty only when the vendors bill them for the penalty. Other state agencies pay the interest penalty automatically whenever it becomes due. Moreover, the DOE and UH cannot routinely keep track of how long each is taking to make its vendor payments.

Progress in assessing the success of educational programs and activities has been mixed. While efforts have increased significantly, they still lack focus and overall direction. The UH has been pursuing a diffused approach where the needs of operating units are emphasized, but not systemwide needs for accountability. The DOE has what it calls an educational assessment and accountability system (EAAS), but its approach is fragmented instead. How the various efforts fit together — from the commission on performance standards to individual school

efforts under school/community based management and other efforts — remain to be seen. Coordination between the UH and DOE have increased, but joint activities continue to occur on a piecemeal basis and still lack cohesion.

Recommendations and Response

We recommend that the DOE should develop measures of effectiveness and institute a system of monitoring its fiscal operations and that the UH should continue to monitor its affected fiscal activities. We also recommend that both agencies should focus upon ensuring timely action on vendor payments by installing fiscal systems whereby accounts payable can be dated and properly monitored. We further recommend that the DOE and UH—both separately and jointly—should give stronger overall direction to their educational assessment activities so that they can be held more accountable for the resources entrusted to them. Finally, with seven years of relatively successful implementation of administrative flexibility in the area of fiscal operations and with the 1993 Legislature already having extended the authorizing legislation for another four years until 1998, we recommend that the Legislature should extend indefinitely Act 321, SLH 1986, as amended by Act 371, SLH 1989. Moreover, since the Legislature already requires the DOE to report its educational assessment results annually, the Legislature may also wish to extend this requirement to the UH and to the joint efforts of both.

The DOE has set a goal of July 1994 for putting into effect effectiveness measures similar to those being used by the UH. Both agencies agree that they should give increased attention to ensuring timely action on vendor payments. The UH has identified the installation of an aging of payments system as one of the features to be included in its proposed new financial management system. The DOE maintains that it has changed its procedures to provide for more timely handling of vendor payments and is studying the automated interest payment program used for other state agencies for possible installation in its own financial management system.

The DOE has offered no comments on our recommendation that both it and the UH give clearer focus to their educational assessment activities. However, the UH has reaffirmed its commitment to educational assessment as a means of achieving accountability. While pointing out the importance of combining systemwide policy guidance with campus-based evaluation and analysis, it recognizes the challenge of using and presenting assessment results in a manner that is understandable to the Legislature and the public. The UH expects, therefore, to broaden its use of educational assessment to further accountability and demonstrate institutional responsiveness.

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Final Report on Administrative Flexibility Granted to the University of Hawaii and the Department of Education

A Report to the Governor and the Legislature of the State of Hawaii

Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 93-14
November 1993

Foreword

Under Act 321, SLH 1986, the Legislature granted to the University of Hawaii and the Department of Education, for three years, a greater degree of administrative flexibility over various fiscal matters than is given to other state agencies. Act 371, SLH 1989, amended Act 321 by extending it for another five years and by requesting the Auditor to assess the impact of the legislation and to evaluate the progress of educational assessment at the two educational agencies.

We submitted an interim report to the Legislature in 1991. In this final report called for under Act 371, we present our findings and recommendations regarding the implementation and further extension of the administrative flexibility legislation and the conduct of educational assessment activities by the Department of Education and the University of Hawaii.

We wish to express our appreciation for the cooperation and assistance extended to us by various officials and staff members at the University of Hawaii and the Department of Education.

Marion M. Higa
State Auditor

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Chapter 1
Introduction and Background

Act 371, SLH 1989, directed the State Auditor to assess the impact of Act 321, SLH 1986, which grants to the University of Hawaii (UH) and the Department of Education (DOE) a greater degree of administrative flexibility over various fiscal matters than is allowed to other state agencies. Act 371 also requested the Auditor to evaluate the progress of educational assessment activities at both the UH and DOE. This is the second of the two reports required under Act 371.

Background

The Hawaii State Constitution accords special status to the Board of Regents and the Board of Education in the internal organization and management of their respective agencies. In contrast to other executive departments, the University of Hawaii (UH) and the Department of Education (DOE) are not subject to detailed supervision through state agencies such as the Department of Budget and Finance (B&F) and the Department of Accounting and General Services (DAGS).

Evolution of increased administrative flexibility

The granting of greater administrative flexibility to the UH and DOE has evolved over the years. In 1985 the governor first extended increased administrative flexibility to the UH through executive action. At that time, he directed B&F and DAGS to work with the UH to implement an orderly transfer to the UH of responsibilities in a number of administrative areas.

In 1986 the Legislature passed Acts 320 and 321 which gave both the UH and DOE increased flexibility to manage certain budgetary and fiscal activities for a period of three years. Act 320 required B&F to establish allotment ceilings for the two educational agencies but limited the scope of B&F's review of quarterly allotments. It also allowed the two educational agencies to transfer, without executive approval, general fund appropriations between programs and cost elements. For example, they could transfer funds from one organizational unit to another and from personnel costs to equipment costs.

Act 321 transferred the preauditing function from DAGS to the two educational agencies. It also authorized the UH and DOE to make direct disbursements for payroll and other operating expenses, to install their own accounting systems, and to develop their own business and accounting forms. In addition, this act transferred the governor's authority to waive bid requirements to the Board of Regents and the Board of Education.

In 1989, the Legislature passed Acts 370 and 371 which extended Acts 320 and 321 respectively for another five years. Act 371, however, amended the previous legislation by deleting the authority of the UH and DOE to handle the payroll function. It also authorized the governor to suspend temporarily the exemptions from central control granted under Act 321, if this is necessary for the governor to manage the financial resources of the State.

Act 371 also required the UH and DOE to submit annual reports to the Legislature from 1990 through 1994 on the progress of their educational assessment activities. Educational assessment is viewed widely as a means of achieving accountability in the field of education. Educational assessment focuses on the effectiveness of student education and how well students are prepared for the workforce and their future lives.

In addition, Act 371 directed the Auditor to evaluate: (1) the impact of Act 321, as amended, on the two educational agencies, and (2) the progress of educational assessment activities at the UH and DOE. The first report on these matters was submitted in 1991 and the second and final report is requested for 1994. In the final report, the Auditor is to recommend whether the administrative flexibility granted to the UH and DOE should be continued.

1991 interim report on flexibility

As required by Act 371, we submitted an interim report to the 1991 Legislature. In our 1991 report, we found that the UH was continuing to perform in a timely manner the fiscal operations that had been transferred to it. We were unable, however, to determine the extent to which the DOE's fiscal operations had been affected by Acts 321 and 371 because the DOE had done little to monitor its effectiveness under this legislation. We recommended that the DOE should monitor and measure the effectiveness of the fiscal operations it had assumed from DAGS. We also found that both educational agencies were continuing to pay the legally prescribed interest penalty on overdue vendor payments only when the affected vendors billed them for this penalty. In contrast, DAGS automatically calculates and pays this penalty for other state agencies whenever it is due. We recommended that the UH and DOE should follow the example of DAGS. Finally, we found that both the DOE and UH were making only slow progress in the area of educational assessment. We recommended that they should expand, accelerate, and better coordinate their educational assessment activities.

Other related developments

Since the passage of Acts 370 and 371 in 1989, the Legislature has taken two other significant actions that relate to administrative flexibility: the authorization of lump-sum budgets and the extension of Acts 321 and 371.

In consonance with other school reform legislation, the General Appropriations Act of 1993 (Act 289) increased the budgetary flexibility of the UH and the DOE. This legislation gave the two educational agencies "lump-sum" budgets—that is, budget appropriations in broad categories where the two agencies have more discretion to spend without detailed controls. The Legislature also passed Act 314 which extends the expiration of Acts 321 and 371 for another four years, from June 30, 1994, to June 30, 1998.

Objectives of the Evaluation

1. Identify, summarize, and assess the administrative flexibility actions taken at the UH and DOE relative to fiscal operations affected by Act 321, SLH 1986, as amended by Act 371, SLH 1989.

2. Identify, summarize, and evaluate the development and implementation of educational assessment plans and programs at and between the UH and DOE.

3. Make recommendations, as appropriate, relating to administrative flexibility and educational assessment at the UH and DOE, including a recommendation regarding further extension of the administrative flexibility legislation.

Scope and Methodology

This evaluation focused on two areas: (1) the impact of administrative flexibility on the affected fiscal operations of the UH and DOE, and (2) the progress of educational assessment activities at the UH and DOE. This evaluation followed the pattern of our earlier review in 1991 (Report No. 91-8). Our 1991 review, in turn, was strongly influenced by the three prior evaluations of Acts 320 and 321, SLH 1986, which we prepared for the Legislature in 1987, 1988, and 1989.

This review was limited to the implementation of Act 321, SLH 1986, as amended by Act 371, SLH 1989, which pertains only to certain fiscal operations of the DOE and UH. We examined the progress of educational assessment activities at the UH and DOE in the context of our 1991 interim report and the three prior reports we submitted in 1987, 1988, and 1989.

In our examination, we interviewed UH and DOE staff who were responsible for fiscal operations and for the development and implementation of educational assessment plans. We also examined reports and other documents relating to administrative flexibility and educational assessment. We did not test the validity or reliability of the reports provided to us by the two educational agencies.

Our work was performed from May 1993 to October 1993 in accordance with generally accepted government auditing standards.

Chapter 2

Review of Administrative Flexibility and Educational Assessment

In this chapter, we review the progress of the University of Hawaii (UH) and the Department of Education (DOE) in implementing administrative flexibility in their fiscal operations, and in carrying out educational assessment activities.

Findings

1. Neither the UH nor the DOE can demonstrate that increased administrative flexibility has resulted in improvements in their educational services. The UH can show, however, that it is performing its fiscal functions in a timely manner. The DOE still lacks any performance data to assess its fiscal operations. Both educational agencies need to assure timely action on vendor payments.

2. Progress of educational assessment is mixed. Activities in this area have increased significantly but they lack focus and overall direction.

3. Based on the performance of the UH and DOE in implementing the administrative flexibility granted to them in 1986 and extended by the Legislature in 1993, Act 321, SLH 1986, as amended by Act 371, SLH 1989 should be continued indefinitely.

Administrative Flexibility Is Not Clearly Linked to Quality of Education

The administrative flexibility legislation was aimed at improving the quality of education in Hawaii as well as increasing the organizational effectiveness and efficiency of the UH and DOE.

Both the UH and the DOE held that increased freedom from centralized control would enable them to respond more quickly to changing conditions in the complex field of education and carry out their educational functions in a more efficient and effective manner. They contended that such increased efficiency and effectiveness would, in turn, result in an improved level of educational services.

The Legislature questioned the validity of these arguments and took two precautions. It set an initial limit of three years on the authorizing legislation. It also directed the Auditor to assess and report on the impact of the legislation relative to the quality and effectiveness of the

educational programs of the UH and DOE. However, the linkage between administrative flexibility and educational improvement has not been, and probably cannot be, clearly established.

Lack of evidence demonstrating educational improvement

Administrative flexibility legislation has now been in effect for seven years, but neither the UH nor the DOE has any evidence that the increased administrative flexibility has resulted in improvements in their educational services. While both agencies may feel that they can carry out their administrative functions more effectively, they have not been able to show any direct relationship between administrative flexibility and quality of educational services.

In the course of five reviews by the Office of the Auditor, we have discussed with numerous UH and DOE officials the impact of this legislation. These officials consistently maintain that they are able to act more expeditiously and perform their duties more effectively now that they need not channel activities through central staff agencies such as the Department of Budget and Finance (B&F) and the Department of Accounting and General Services (DAGS). A number of these officials cite as evidence the decline in the frequency of complaints received from such parties as employees seeking travel advances and vendors demanding payment. These officials advocate that administrative flexibility be continued and expanded.

The absence of any direct relationship between increased administrative flexibility and the quality of the educational services is not unexpected. In our first report on the administrative flexibility legislation (Report No. 87-8), we had cautioned that it would be virtually impossible to make any direct correlations between changes in the administrative procedures or business operations of the two educational agencies and changes in the quality of education delivered.

As we explained at that time, a multitude of interactive factors affect the work environment and educational processes. They include:
the numbers, types, and prior preparation of the students to be taught; the numbers, types, prior preparation, compensation, and other conditions of employment of those doing the teaching; the adequacy and condition of the educational physical facilities; the clarity and feasibility of the educational mission to be accomplished; and the general level of communitywide interest in and support for the affected educational program.

Nevertheless, we examined the impact of the administrative flexibility legislation and its implementation by the two educational agencies. We also suggested that Hawaii should follow the national trend, using educational assessment to achieve greater accountability in the field of education.

UH performance generally timely

The UH has taken seriously its responsibilities for implementing the flexibility legislation. It has shown continuing improvements in the efficiency of its fiscal operations.

When the UH took over various fiscal operations from DAGS, it also instituted a number of effectiveness measures to monitor its performance. These measures were primarily in terms of the average time required to perform certain operations, such as the number of days to make vendor payments, record data in the fiscal system, approve emergency services, and process purchases through advertised procurement bids.

In our first review in 1987, we found that the UH had been able to make some significant reductions in processing time. In our third report in 1989, we found continued reduction in the time required for transactions to be completed except for the completion of advertised procurement bidding. We recommended that administrative flexibility be extended.

In 1991, we reported on the results for FY1988-89 and FY1989-90 and compared them with those for FY1987-88. We found that in most categories the prior improvements had been maintained or further improved. We concluded that the administrative flexibility legislation had a positive effect on the UH's fiscal operations. At the same time, we also noted that some of the increased efficiencies could be attributed to other organizational and procedural changes that had been occurring at the UH during the same period.

For this review, we compared similar data for FY1990-91, FY1991-92, and FY1992-93 with those for FY1989-90. The results are shown in Table 2.1.

As seen in Table 2.1, the UH's performance over the past three years has been inconsistent. Increases occurred in the number of days it took to replenish petty cash funds, make vendor payments, receive vendor payments, and to advertise procurement bidding. This pointed to a decline in efficiency. In some instances, the increases in time were significant—from 13 to 25 days for vendor payments and from 103 to 125 days for advertised procurement bids. The UH however, recovered in 1992-93 when improvements were shown for five categories while eight categories remained unchanged. The performance for 1992-93 remains about the same as that for 1989-90 when we last reported on this subject.

Based upon these performance data, the UH is continuing to perform in a timely manner the fiscal operations it took over from DAGS. Other factors besides the administrative flexibility legislation may have

TABLE 2.1

Effectiveness Measures of Fiscal Services and Procurement and Property Management at the University of Hawaii

MEASURES	NUMBER OF DAYS FOR TRANSACTION			
	FY1989-90	FY1990-91	FY1991-92	FY1992-93
Fiscal Services				
Replenish imprest/petty cash accounts	4	4	5	5
Receive faculty/staff travel advance	7	8	10	5
Make vendor payments after receipt of documents in Disbursing Office	4	4	6	5
Receive payment to vendor after satisfactory delivery of goods, services, and invoices	14	13	25	15
Record data in fiscal system	5	6	7	5
University funds invested and earning interest	100%	100%	100%	100%
Procurement and Property Management				
Approve emergency services	1	1	1	1
Approve sole source contracts	4	4	4	4
Approve hiring of consultants*	1	1	1	1
Approve negotiations when no bids received	1	1	1	1
Approve leasing of space	1	1	1	1
Approve disposition of obsolete and broken equipment	6	7	6	6
Required time to complete advertised procurement bidding	105	103	125**	107***

Sources: University of Hawaii, Fiscal Services Office and Procurement and Property Management Office, 1993.

* Excludes architects, engineers, auditors, attorneys, and contracts exceeding $25,000.

** Variance for fiscal year 1991-92 was due to the return to the lower public bidding threshold of $4,000 which resulted in 570 projects having to be advertised for bids.

*** Variance for fiscal year 1992-93 was due to 150 projects being submitted on or after March 1, 1993 (total projects for FY1992-93 was 367)

contributed to this result. Similarly, other factors unrelated to the administrative flexibility legislation may have caused the losses in efficiency in 1991-92. For example, the increase in the time required to complete advertised procurement bids may have been affected significantly by the return to a lower threshold for requiring bids. The reduction of the threshold from $15,000 to $4,000 resulted in 570 projects having to be advertised for bids in FY1991-92.

Continued lack of performance monitoring at the DOE

In contrast to UH, the DOE still has not developed any measures of effectiveness covering its fiscal activities. The DOE is thus unable to monitor its performance in this area. DOE officials concede that they have not followed our recommendation to institute a monitoring system for the department's fiscal operations. They also acknowledge that such monitoring is a good idea and is something that could be incorporated into its financial operations.

Since 1987 the DOE has been struggling with developing and implementing a new on-line, computerized, financial management system (FMS). This effort has been marked by serious shortcomings. They include deficiencies in initial concept and development, delays, and major cost overruns. The project has not delivered the important benefits that the DOE had promised.

With problems of these proportions in financial management, the DOE has not given priority to monitoring the impact of the administrative flexibility legislation. As one official noted, with so many other deficiencies in the financial management process it would be virtually impossible to differentiate the effects of administrative flexibility from other system shortcomings. This same official expressed optimism that the FMS could be fully functional by June 30, 1995, and that a monitoring process could be incorporated into the system.

We believe that monitoring of performance is an essential management responsibility. The DOE should install effectiveness measures for the fiscal operations affected by the administrative flexibility legislation.

Timely action on vendor payments not assured

Both the UH and DOE need to focus more attention on assuring prompt action on vendor payments. Under Section 103-10, HRS, state agencies are required to pay vendors within 30 days after the delivery of goods or services. When agencies do not comply with this requirement, vendors are entitled to 12 percent annual interest on the unpaid amounts. The UH and DOE do not follow the DAGS practice of automatically paying the interest due, nor do they have a system for monitoring timely payments.

In our 1991 interim report, we found that both the DOE and UH were

paying the interest penalty on overdue vendor payments only when billed by the affected vendors. This was in contrast to the DAGS practice of automatically calculating and paying such penalty whenever it was due. To assure fairness to vendors, we recommended that both educational agencies should follow the practice of DAGS of automatically paying the interest penalty.

During this review, we found that the UH and DOE still are not paying the interest penalty automatically but are continuing to wait to be billed for the penalty. Officials in both agencies believe that their current practice of waiting to be billed meets the technical requirements of the law. They also say that our recommendations would require a major change in their operating procedures and recordkeeping.

Currently, the UH and DOE do not feed into their financial management systems the invoice date from which the maximum due date and overdue penalty are determined. As a result, they have no easy or automatic way to determine when a penalty is due and how much it should be. Instead, they leave it to the vendors to seek redress.

Neither the UH nor the DOE is able to routinely determine how long it takes them to pay their bills from the time goods or services are received to the time checks are actually issued. (The UH's monitoring system covers only the time after the appropriate documents are received in its disbursing office to the time payments are made.) Thus, neither one knows how often or in what amounts it may be exceeding the 30-day payment limit and incurring liability for the interest penalty.

The two educational agencies may be technically correct in holding that their current practice of waiting to be billed for the interest penalty meets legal requirements, but it does not fulfill the intent and spirit of the law. The Legislature adopted the policy that vendors should be paid within 30 days after the delivery of goods or services. To emphasize this policy, the Legislature added the sanction of the interest penalty.

Relying on vendors to bill for the interest penalty does not sufficiently comply with the State's 30-day payment policy. In interviews with a limited number of vendors, we were informed that the two agencies frequently exceeded the 30-day limit. These vendors were not likely to bill for the interest penalty, however, unless late payments were persistent or large amounts were involved. The vendors found it burdensome to calculate and bill for the interest penalty. Some said that they relied on telephone reminders to the agencies to expedite the payment of overdue invoices.

Both the UH and DOE should establish methods for recording invoice dates and for keeping track of invoices until payments are actually made.

A UH official says that the UH's 25-year old financial management system does not have the capability to date and keep track of invoices, but the UH will be able to do so when a planned, new financial management system is developed and implemented. A DOE official indicated that the department's new financial management system can do this if appropriate changes are made in accounting procedures. We urge both educational agencies to give priority attention to complying fully with the State's vendor payment policy.

Educational Assessment Lacks Focus and Direction

Both educational agencies have increased their efforts in the area of educational assessment and have expanded their cooperation and coordination in areas of joint concern, but their efforts lack focus and firm direction.

Insufficient focus and overall direction at the UH

Since our last report in 1991, the UH has continued to expand its educational assessment activities. As we found in 1991, however, these efforts still lack focus and overall direction. The purpose of these efforts and their usefulness are not clearly demonstrated. The UH needs to understand that the purpose of educational assessment is to improve educational services, establish accountability, and provide a basis for decision making by policy makers. Instead, the UH has initiated a wide range of activities it calls "educational assessment" without clear evidence that it has considered the costs involved or the ends to be served.

Purpose of assessment activities unclear

In 1991, we reported that the UH had undertaken a number of assessment activities. Most of these efforts were initiated by individual units within the UH system to meet the particular needs of the units. Only limited attention was being given to how these efforts might serve the university's need for overall accountability. We noted the cost of the expanded efforts and pointed out that the UH should decide how it would actually use the significant amounts of information being generated. Our overall conclusion was that the UH was not giving sufficient attention to the coordination of educational assessment activities on an universitywide basis.

We find that currently the UH continues to carry out a large and varied program of educational assessment activities. UH administrators, at both the system and unit levels say that more educational assessment activities are being undertaken and more resources are being devoted to these efforts. This is seen in the annual reports on educational assessment that the UH has submitted to the Legislature pursuant to Act

371, SLH 1989. The 1993 UH report is a 28-page single-spaced catalogue of educational assessment activities. The widely varied activities include such things as enrollment reports, placement examinations, surveys of faculty morale, and assessments of the institutional environment. In contrast, the inventory of assessment activities included in the 1990 report took up only 4 pages.

With this increasing number and range of activities under the name of educational assessment, it is not clear how the various activities relate to each other or how the information will be used. For example, the university's Office of the Vice President for Student Affairs and the Office of Planning and Policy prepare a number of reports and surveys of students, their enrollments, and their needs. Similar surveys are conducted by the community colleges, UH Hilo, UH Manoa, and UH West Oahu. It is not clear how this information is being compiled and used. The report to the Legislature simply says that these reports are shared and distributed.

UH policy appears deliberately to foster an emphasis on educational assessment at the unit level. Both the UH's annual progress reports to the Legislature and comments by top UH officials stress the importance of a diffused approach to educational assessment that encourages, rather than imposes, a "culture of evidence" (that is, an understanding and appreciation of the value of educational assessment) throughout the UH system. What this means is not clear.

There has been a lack of appreciation of the overall cost of educational assessment activities within the UH system. The UH has also lost sight of the need to coordinate efforts among the various units to meet its broader responsibility for accountability. While some discretion and initiative must be left to the individual units, overall priorities must be set to manage effectively the allocation of resources to these activities. For example, the UH does not know how much it is spending for educational assessment on a total basis and what value is being received for such expenditures.

Value of frequent program reviews questionable

A case in point is the frequency with which program reviews (reviews of academic programs, or units, such as English, or political science, or student services) are conducted. As prescribed by the UH, the program review is an elaborate process involving both self-study and outside evaluation and often extends as long as a year. Many programs undergo review on a five-year cycle. The benefits of program reviews are questionable in relationship to their costs. The program reviews are often considered on just a routine basis by the Board of Regents.

There is a proposal to lengthen the cycle for some programs to seven years. One UH official has suggested an even longer cycle except in instances where major changes may be occurring, such as the departure of the head of a program or a dramatic increase or decrease in program demand or resources. In addition to questions about the frequency of program reviews are questions about their purpose and usefulness.

Usefulness of annual reports questionable

The UH's present decentralized approach to educational assessment appears to focus on meeting the internal needs of the different units, rather than satisfying the needs of such decision makers as the Board of Regents and the Legislature. This is reflected in the annual reports on educational assessment the UH is required to submit to the Legislature.

The UH's annual reports are not focused on satisfying the information needs of policymakers or on enabling policymakers to judge the performance of the institution and its administrators. For the most part, the annual reports simply list by units the educational assessment activities being carried out. These reports do not show significant results obtained from the assessment efforts or how the results have affected decisionmaking. The reports also do not identify key information needed by policymakers or try to provide answers to questions. UH officials concede that not much attention has been paid to meeting the needs of the Board of Regents or the Legislature in the information supplied.

The purpose of educational assessment is to achieve accountability in the educational area by focusing on *performance* or *results*, not merely to generate data. Use of educational assessment for this purpose requires the establishment of clear and agreed upon objectives, the development of suitable measures for evaluating the attainment of those objectives, and the actual implementation of a system for conducting, following up, and reporting on the evaluations made.

This situation may change with the recent appointment of a new UH president. At the July 16, 1993, meeting of the Board of Regents, the new president expressed a commitment to bringing component parts of the UH together so that they can function more effectively as a system. Along with organizational and functional changes at the executive level, he established a calendar for bringing actions before the Board of Regents and for keeping it informed about such major developments as implementation of the recently adopted UH Master Plan.

We believe that the UH should give clearer focus and stronger overall direction to its educational assessment activities so that it can become more accountable for the management of the resources entrusted to it.

We are hopeful that the actions being taken by the new president will produce such a result.

Fragmented educational assessment efforts at DOE

The DOE now has what it calls an educational assessment and accountability system (EAAS), but its approach to educational assessment remains fragmented. Before the EAAS can become an accountability system, the DOE must bring the EAAS together with the results of recent school reform actions and the work of the Student Performance Standards Commission.

EAAS now functioning

The DOE's EAAS is a database of standardized information for all the schools in Hawaii's public school system. Individual reports, known as School Status and Improvement Reports (SSIRs), are issued annually for all schools. The SSIRs display three categories of information: "context indicators" (three years of data on students, staff, and facilities), "school improvement process" (descriptive material on school improvement priorities and activities), and "outcomes" (three years of data on achievement test scores, student misconduct and discipline, average daily attendance, and awards, recognitions, and external reviews). Except for the three years of various data for the individual schools, the SSIRs do not contain any comparative or analytical information.

For the past four years (1990, 1991, 1992, and 1993), the DOE has also issued the *Superintendent's Report on School Performance and Improvement in Hawaii*. This is a summary and analytical report that has a twofold purpose: (1) to examine the results of the SSIRs over time to see what they reveal about trends, problems, and needs in Hawaii's schools, both individually and statewide, and (2) to provide information on how Hawaii measures up nationally and with other comparable states in areas where comparisons are relevant and feasible. The Superintendent's Report and the SSIRs together constitute the DOE's current accountability reporting system.

The DOE is trying to make this reporting system more understandable. It is converting the SSIRs from a plain, text-based, programmed report to a graphics-based, newsletter style layout. Prototype reports for several pilot schools will probably be tested in fall 1993. The superintendent's reports are concise and increasingly make use of graphic materials. The 1992 and 1993 reports also include a one-page summary that highlights such things as: (1) enrollment trends in Hawaii, (2) Hawaii's pupil to teacher ratios compared to other states, (3) Hawaii's expenditures for education compared to other states, (4) the adequacy of Hawaii's school facilities, and (5) school size in Hawaii.

Major problems remain

Despite these efforts, major problems continue to confront the DOE in accountability reporting. In our interviews, members of the Board of Education (BOE) reported that they were not thoroughly familiar or satisfied with the current EAAS. They viewed the DOE's educational assessment efforts to be very much in a state of flux in view of several factors affecting educational assessment.

Probably the most significant factor is the movement of Hawaii's public schools from a highly centralized system to a decentralized system with individual schools having their own school/community based management (SCBM). In Act 366 of 1989, the Legislature endorsed the SCBM concept and provided for its initiation. The legislation charged the BOE with setting educational goals for Hawaii's schools and formulating standards for measuring the attainment of those goals.

Then in 1991, the Legislature passed two separate laws affecting educational assessment. Act 332 established a task force to review the governance of public education in Hawaii including the roles of all participants both within and outside the DOE. Act 334 created a temporary Commission on Performance Standards and gave it the task of setting achievement standards for Hawaii's public school students and the means of assessing the attainment of such standards.

In 1992, the Legislature passed Act 295 which extended the life of the Commission on Performance Standards for one year and called upon the commission to present its final report to the 1994 session of the Legislature. This act also added to the commission's duties the task of developing "an implementation model for future assessment on a school-by-school basis." As of October 1993, the commission still had not decided on the standards it will recommend. The commission was reported to be aiming to complete a draft report by the end of 1993 and submit a final report by June 30, 1994, when the commission is scheduled to terminate.

In the absence of recommendations from the Commission on Performance Standards, the Legislature in 1993 passed Act 364 which further promotes the restructuring of public education in Hawaii. In exchange for giving the DOE greater fiscal autonomy, the Legislature calls upon the BOE and the individual schools to provide "enhanced assessment and reporting of educational outcomes." The act requires the BOE to submit annual status reports to the Legislature and specifies some of the information to be included in these reports.

Some of the specified information is already being reported through the existing EAAS, but also specified are such performance standards and

school-by-school assessment models as may be developed by the Commission on Performance Standards and adopted by the BOE. Act 364 also allows SCBM schools to develop and implement their own student assessment mechanisms, but requires the BOE to include these in its annual status reports to the Legislature. Act 364 further deletes the previous requirement that the superintendent submit an annual report to the governor covering many of the matters to be included in the BOE's annual status reports.

Another aspect of school reform which affects educational assessment is Project Ke Au Hou. The project seeks to supplement and strengthen the move toward local school autonomy by decentralizing the authority, responsibility, and resources of the DOE's state and district offices and making them more responsive to the individual schools. The project proposes to establish geographically dispersed school support centers that would furnish technical, research, and assessment resources to individual schools. Schools will likely look to these centers to develop their own student assessment mechanisms. The DOE will need to consider developments from Project Ke Au Hou in its approach to educational assessment and accountability.

Need to bring together assessment activities

With so much happening in educational assessment in Hawaii's public school system, it is important to bring together the interrelated concerns and activities. It is not clear at this time how the various pieces would or should fit together.

DOE officials indicate that the EAAS will be used as the basis or framework for meeting the assessment reporting requirements specified under the recently enacted school reform legislation. However, the BOE has not yet adopted this approach. These same officials say they intend to incorporate the results of the Commission on Performance Standards into the EAAS, but they also concede that the EAAS may have to be modified to fit whatever the commission will propose. Meanwhile, Project Ke Au Hou has its own review and development process that is not clearly or directly related to the DOE's other educational assessment activities.

In summary, both the BOE and DOE will need to give clearer focus and stronger overall direction to the various educational assessment activities taking place within or being proposed for Hawaii's public school system.

Increased interaction between the UH and DOE

Increasingly, the UH and DOE are working together and exchanging information. These joint activities continue to occur on a piecemeal basis and still lack a coordinated approach to determining needs and assessing performance in areas of joint concern.

In 1991, we reported that there had been cooperation between the UH and DOE on a project-by-project basis, but the two educational agencies had made little progress toward developing a joint plan of action. Thus, in addition to such projects as developing the capability to track the performance of students from Hawaii's public school at the UH, we suggested that the UH and DOE should plan how they might work together over time to improve the State's overall educational programs.

Both educational agencies recognize the need for broader cooperation and coordination. The UH Board of Regents and the Board of Education entered into a formal agreement of partnership in September 1991. This has led to an early focus on two areas of major concern: (1) the UH's role in providing teacher training to meet the DOE's needs, and (2) smoothing the way for students making the transition from high school to college. Task forces were established to examine both areas and reports were issued in 1992.

The UH and DOE have also expanded their interchange of information. The DOE is providing the UH with the results of its annual Senior Exit Plans Surveys while the UH is continuing to provide the DOE with data on the performance of Hawaii public school students during their freshman year at the UH. Moreover, the two agencies have established a data link whereby one can access the other's computerized data. Among other things, this will enable the DOE to track the progress of Hawaii public school students through the UH system.

Other examples of cooperation are the several joint projects that the UH community colleges are carrying out with the DOE, such as "Project Re-Shape" and the "tech-prep" program (where UH and DOE personnel join together to counsel DOE students in preparing them to enter the UH system). The UH has also enabled the DOE to initiate its distant learning program by making its interactive telecommunications facilities available until such time as the DOE is able to develop its own facilities. Further cooperation in this area is anticipated.

These interagency actions continue to emphasize the exchange of information. This is reflected in the UH's 1993 annual report to the Legislature that states that the interchange of information is sufficient to meet the interrelationship of assessment activities between the UH and DOE called for by Act 371, SLH 1989. However, the two agencies have not established any permanent mechanism to maintain and further implement their partnership agreement. One board member has commented that the joint program seems to have lost some of its momentum over the past year.

In effect, the UH and DOE still have no joint plan or agenda for working together to improve education in Hawaii, or for assessing the success of

any cooperative efforts they may undertake. To progress, the two agencies must set joint priorities and assess how well they are performing in carrying out such priorities.

Support Exists for Extending the Administrative Flexibility Legislation

Despite some shortcomings on the part of the UH and DOE in their implementation of the administrative flexibility legislation, these deficiencies are minor relative to the total scope of fiscal responsibility that was transferred to them from DAGS. The UH and DOE have now been performing the transferred functions for more than seven years without any major breakdowns in operational effectiveness. Both agencies have also given serious attention to educational assessment and have greatly expanded their efforts in this area.

On an overall basis, the two educational agencies have demonstrated that they are able to perform the administrative functions that were transferred to them. These actions provide a sufficient basis for continuing indefinitely the administrative flexibility granted to the two educational agencies.

Further support for extending Act 321, SLH 1986 (as amended by Act 371, SLH 1989) is provided by legislation in 1993 that extended this administrative flexibility another four years.

We also note that Act 364 passed during the 1993 legislative session provided the DOE with increased budget and fiscal flexibility to promote decentralization. At the same time, Act 364 also seeks to increase accountability by imposing new requirements with regard to educational assessment. The act further requires the department to report annually to the Legislature on its educational assessment activities. It would be appropriate for the Legislature to require the same of UH.

In view of the foregoing, we conclude there is adequate support and justification for extending indefinitely the administrative flexibility that was granted to the UH and DOE under Act 321, SLH 1986, as amended by Act 371, SLH 1989.

Recommendations

1. The Department of Education should develop measures of effectiveness and institute a system of monitoring its fiscal activities. The University of Hawaii should continue to monitor its affected fiscal activities.

2. Both the University of Hawaii and the Department of Education should focus upon ensuring the timely payment of vendor payments by installing systems whereby accounts payable can be dated and properly monitored.

3. The University of Hawaii and the Department of Education—both separately and jointly—should give clearer focus and stronger overall direction to their educational assessment activities. This is so that they can be held more accountable for the resources entrusted to them.

4. The Legislature should extend indefinitely the administrative flexibility granted to the Department of Education and the University of Hawaii under Act 321, SLH 1986, as amended by Act 371, SLH 1989. Since the Department of Education is now required (under Act 364, SLH 1993) to report annually to the Legislature on its educational assessment results, the Legislature may also wish to impose a similar requirement on the University of Hawaii. Further, the Legislature may wish to extend the requirement to include the assessment of joint efforts undertaken by the two educational agencies.

Responses of the Affected Agencies

Comments on Agency Responses

We transmitted a draft of this report to the Chair of the Board of Regents, the President of the University of Hawaii, the Chair of the Board of Education, and the Superintendent of Education on October 21, 1993. A copy of the transmittal letter to the Chair of the Board of Regents is included as Attachment 1. Similar letters were sent to the President of the University of Hawaii, the Chair of the Board of Education, and the Superintendent of Education. The President of the University of Hawaii and the Superintendent of Education responded, and their responses are included as Attachments 2 and 3 respectively.

The University of Hawaii agrees with our recommendation relating to the installation of an accounts payable or aging of payments system and has identified this as one of the features to be included in its proposed new financial management system. The university also reaffirms its commitment to educational assessment as a means of achieving accountability. While pointing out the importance of combining systemwide policy guidance with campus-based evaluation and analysis, it recognizes the challenge of using and presenting assessment results in a manner that is understandable to the Legislature and the public. The university expects, therefore, to broaden its use of educational assessment to further accountability and demonstrate institutional responsiveness.

The Department of Education states that it has set a goal of July 1994 for the installation of effectiveness measures similar to those currently being used by the University of Hawaii. The Department of Education also advises that: (1) it has changed its procedures to provide for more timely handling of vendor payments, and (2) it is studying the State's automated interest payment program with the objective of installing this feature in the department's financial management system. The Department of Education offered no comments on our recommendation that both it and the University of Hawaii give clearer focus and stronger overall direction to their educational assessment activities.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

October 21, 1993

COPY

Mr. H. Howard Stephenson
Chair, Board of Regents
University of Hawaii
2444 Dole Street
Honolulu, Hawaii 96822

Dear Mr. Stephenson:

Enclosed for your information are three copies, numbered 12 to 14 of our draft report, *Administrative Flexibility Granted to the University of Hawaii and the Department of Education*. We ask that you telephone us by Tuesday, October 26, 1993, on whether you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Thursday, November 4, 1993.

The Department of Education, the President of the University of Hawaii, the Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Diana McClary
for

Marion M. Higa
State Auditor

Enclosures

UNIVERSITY OF HAWAII

PRESIDENT, UNIVERSITY OF HAWAII
AND CHANCELLOR, UNIVERSITY OF HAWAII AT MANOA

October 29, 1993

Ms. Marion M. Higa
State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, HI 96813-2917

RECEIVED
Nov 2 1 3 PM '93
STATE OF HAWAII

Dear Ms. Higa:

SUBJECT: FINAL REPORT ON ADMINISTRATIVE FLEXIBILITY GRANTED TO THE UNIVERSITY OF HAWAII AND THE DEPARTMENT OF EDUCATION

The University wishes to thank the Legislative Auditor for the subject report and is particularly pleased that the auditor has found that the Legislature should "extend indefinitely the administrative flexibility granted to the Department of Education and the University of Hawaii under Act 321, SLH 1986, as amended by Act 371, SLH 1989."

With regard to UH fiscal functions, the discussion on the University's vendor payment process is accurate, and the University agrees with the recommendation relating to the installation of an accounts payable or aging of payments system. For your information, one of the identified features of the proposed new UH financial management system is the ability to identify and track invoices from date of receipt to date of payment and to store that information so that any late interest payments can be readily identified.

The University has recently completed its report to the 1994 legislature on the progress of educational assessment activities within the University system. Given that we are a heterogeneous system of public higher education, we remain committed to an approach to educational assessment that combines system-wide policy guidance and assessment projects with campus-based assessment and analysis activities. Within this context, we are very pleased with progress on several fronts. For example, the implementation of student tracking infrastructures across the campuses is helping us to build bridges with the Department of Education through the exchange of information on student progress. At the same time, our support for assessment projects at the program level (for example, the writing programs) is producing outcome information about student progress that is being funneled back to UH departments, and at the same time shared with the Department of Education. The overall impact is greater clarity about what it takes to help students write better and instructional modifications that help achieve that outcome.

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Costs associated with our assessment efforts have, for the most part, been handled through reallocation within existing resources. This reflects our commitment to educational assessment and our view that this activity must be integrated as an on-going part of what we do at the program, campus and system levels. We want to avoid the situation in which assessment is perceived to be the responsibility of a single office.

As you know, I am committed to accountability and responsiveness of the University of Hawaii System to the Legislature and our public in general. Assessment activities, communication of results, and the demonstrated use of those results in our decision-making processes are key components in securing the Legislature's and public's trust. That trust is fundamental to ensuring much needed management flexibility at the University. The University has laid a solid foundation of educational assessment activities. We are now challenged to use and present the use of assessment results in a manner that is understandable to the Legislature and public. As part of this effort, we have begun monthly briefings for the Board of Regents focusing on master plan priorities and structured around questions such as where we are relative to our goals, and how we will move forward.

Also, we expect to draw heavily on a wide array of assessment activities, including prioritization outcomes, program reviews, student surveys, management information reports, student progress data, etc., as we strive to manage a declining budget while experiencing enrollment growth. The various reports and summaries of educational assessment projects across the University System contain a wealth of information on performance and results. For the future, we expect to use and share existing results and to pursue additional assessment initiatives in order to further University accountability and demonstrate institutional responsiveness. Our commitment to this outcome is steadfast.

Again, we appreciate your office's review of the administrative flexibility measures and the positive recommendation you have reached regarding the continuation of these measures. Thank you for this opportunity to comment on your report.

Sincerely,

Kenneth P. Mortimer

Kenneth P. Mortimer
President, University of Hawaii and
Chancellor, University of Hawaii at Manoa

cc: H. Howard Stephenson, Chairman, Board of Regents
Board Secretary Tatsuki Shiramizu
University Executive Council

JOHN WAIHEE
GOVERNOR

CHARLES T. TOGUCHI
SUPERINTENDENT

STATE OF HAWAII
DEPARTMENT OF EDUCATION
P. O. BOX 2360
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

RECEIVED
Nov 8 1 25 PM '93
OFFICE OF THE AUDITOR
STATE OF HAWAII

November 1, 1993

Ms. Marion M. Higa
State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813

Dear Ms. Higa:

Attached is the Department of Education's response to the Legislative Auditor's report titled, "Final Report on Administrative Flexibility Granted to the University of Hawaii and the Department of Education".

Sincerely,

Charles T. Toguchi

Charles T. Toguchi
Superintendent

CTT:sh

Attachment

AN AFFIRMATIVE ACTION AND EQUAL OPPORTUNITY EMPLOYER

ON ADMINISTRATIVE FLEXIBILITY

Auditor's recommendation: The Department of Education should develop measures of effectiveness and institute a system of monitoring its fiscal activities.

DOE Comments:

The Department of Education's implementation of the Financial Management System has had some shortcomings, as noted on page 9 of the Final Report. Therefore, the priority has been and will continue to be, the on-line operation of FMS as it was intended. Because of this, the development of any measures of effectiveness covering our fiscal activities has been delayed.

It is the DOE's goal to have the effectiveness measures of fiscal services similar to those presently used by the University of Hawaii by July 1994.

Auditor's recommendation: The Department of Education should focus upon ensuring the timely payment of vendor payments by installing systems whereby accounts payable can be dated and properly monitored.

DOE Comments:

The Department has adopted procedures to provide for timely payments to vendors by moving the pre-audit to a post-audit responsibility. This will allow vendor payments to be released with less delays.

The Department is also reviewing the FAMIS automated interest payment program with the goal of installing this feature into FMS. Discussion and documentation with the Department of Accounting and General Services has begun and the DOE will pursue the feasibility of automatically paying interest due to vendors for late payments.